

Message Text

CONFIDENTIAL

PAGE 01 STATE 052155

70

ORIGIN SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 R

DRAFTED BY EUR/CAN:DAKRUSE:RM

APPROVED BY EUR:JAARMITAGE

PM/SAS:MR. SWEENEY (INFORMED)

EUR/RPM:LTC.WROBINSON

EB:MS.CONSTABLE (INFORMED)

L:MR. BOREK (INFORMED)

S/S:PSHANKLE

OSD/ISA:MR. JORDAN

----- 114382

O 040000Z MAR 76

FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA IMMEDIATE

C O N F I D E N T I A L STATE 052155

EXDIS

E.O. 11652: GDS

TAGS: MILN, EAIR, CA

SUBJECT: US ASSURANCES TO GOC ON LOCKHEED LRPA SALE

REF: STATE 48462

1. IN RESPONSE TO REQUEST BY CANADIAN AMBASSADOR WARREN FOR WRITTEN ASSURANCES REGARDING LOCKHEED'S ABILITY TO PERFORM ON SALE OF 18 LRPA'S, DOD HAS GIVEN CANADIAN EMBASSY ON MARCH 3 A NOT-FOR-ATTRIBUTION PAPER WHICH ESSENTIALLY REPEATS THE ORAL ASSURANCES GIVEN OTTAWA TEAM AT FEBRUARY 24 PENTAGON MEETING (SEE REFTEL). TEXT IS "NON-PAPER" WHICH IS FOR INTERNAL GOC USE AND FOR USE IN PARLIAMENT BY MINISTERS ON A NON-ATTRIBUTION BASIS. AMBASSADOR WARREN HAS INDICATED THAT THIS KIND OF PAPER WOULD BE VERY HELPFUL IN ACHIEVING MUTUAL OBJECTIVE OF GOC DECISION TO GO AHEAD WITH LOCKHEED PURCHASE.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 052155

2. EMBASSY WILL NOTE THAT TEXT UNDER SUB-TITLE "FOREIGN MILITARY SALES" GOES BEYOND TENTATIVE US POSITION AT FEBRUARY 24 MEETING BY STATING THAT USG WOULD AGREE TO CONVERTING PART OF THE PROPOSED LOCKHEED-CANADIAN CONTRACT TO A US FOREIGN MILITARY SALE, IF DESIRED BY GOC.

3. TEXT OF PAPER GIVEN CANADIAN EMBASSY FOLLOWS:

BEGIN TEXT: "MUTUAL INTEREST OF DOD AND CANADA.

"--THE US SHARES WITH CANADA A STRONG INTEREST IN SUCCESSFUL COMPLETION OF THE CANADIAN PROCUREMENT FROM LOCKHEED OF 18 LONG-RANGE MARITIME PATROL AIRCRAFT.

"--THE LRPA ACQUISITION WILL SUBSTANTIALLY ENHANCE CANADA'S ASW PATROL CAPABILITY, IMPROVE NORTH AMERICAN DEFENSE AND THUS HELP UPGRADE NATO'S OVERALL SECURITY AND DEFENSE POSTURE.

"--THE PROCUREMENT WILL INCREASE THE PRODUCTION BASE AT LOCKHEED AND THEREBY HAVE A FAVORABLE IMPACT ON THE PRICE PAID BY DOD FOR ITS OWN AIRCRAFT, JUST AS THE LARGE US PROCUREMENT FAVORABLY AFFECTS THE PRICE TO BE PAID BY CANADA.

"LOCKHEED'S OVERALL FINANCIAL VIABILITY.

"--THE EMERGENCY LOAN GUARANTEE BOARD AND DEPARTMENT OF DEFENSE HAVE RECENTLY REVIEWED LOCKHEED'S CURRENT AND PROJECTED FINANCIAL CONDITION.

"--THESE PROJECTIONS INDICATE THAT LOCKHEED WILL BE ABLE TO PAY BACK THE 195 MILLION DOLLARS GUARANTEED LOAN BEFORE THE ELGB'S STATUTORY AUTHORITY EXPIRES AT THE END OF 1978.

"--THE ELGB CONSIDERS THAT LOCKHEED'S FINANCIAL PROJECTIONS ARE REALISTIC AND THAT, IN FACT, THE CORPORATION IS FINANCIALLY STRONGER TODAY THAN IT WAS SIX MONTHS OR A YEAR AGO.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 052155

"--TO DATE, NO CONTRACTS HAVE BEEN CANCELLED AS A RESULT OF THE RECENT PUBLICITY REGARDING PAYMENTS TO FOREIGN OFFICIALS.

"--APPROXIMATELY 60 PERCENT OF LOCKHEED'S SALES ARE TO THE US DOD, AND NO CHANGES IN THIS VOLUME ARE ANTICIPATED AS A RESULT OF THE PUBLICITY.

"--A CANADIAN DECISION TO BUY THE 18 LRPA'S WILL, IN ITSELF, IMPROVE LOCKHEED'S IMAGE AS A VIABLE BUSINESS ENTITY.

"DEPARTMENT OF DEFENSE PLANS.

"--THE US NAVY PLANS TO PROCURE ABOUT 96 P-3C AIRCRAFT FROM LOCKHEED BETWEEN NOW AND FY 1981-1982. THIS PROCUREMENT IS VERY IMPORTANT TO THE US FROM THE STANDPOINT

OF IMPROVING ITS ASW PATROL CAPABILITIES, AND THERE IS A FIRM NAVY DETERMINATION TO SEE TO IT THAT THESE AIRCRAFT ARE DELIVERED EVEN IF LOCKHEED OPERATIONS HAD TO BE CONDUCTED BY A TRUSTEE IN BANKRUPTCY.

"--DOD HAS ASSURED CANADA THAT IT WILL WORK OUT AN EQUITABLE DOVETAILING OF THE US AND CANADIAN AIRCRAFT PRODUCTION.

"--FURTHERMORE, ALTHOUGH OPPOSED IN PRINCIPLE TO OFFSET ARRANGEMENTS, THE US DOD HAS AGREED TO FACILITATE ACHIEVEMENT OF THE OFFSET ELEMENTS OF THE LOCKHEED PACKAGE PROPOSAL BY ACCEPTING

"--RENT-FREE USE OF USG PRODUCTION AND RESEARCH PROPERTY;

"--SHIFT OF SELECTED COMPONENTS FROM US TO CANADIAN MANUFACTURE; AND

"--AGREEING TO THE DUTY-FREE ENTRY OF CANADIAN MANUFACTURED COMPONENTS INCORPORATED IN P-3 AIRCRAFT SOLD BY LOCKHEED TO OTHER FOREIGN GOVERNMENTS.

"FOREIGN MILITARY SALES.
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 052155

"--THE USG WOULD AGREE TO CONVERTING PART OF THE PROPOSED LOCKHEED-CANADA CONTRACT TO A US FOREIGN MILITARY SALE (FMS), UNDER WHICH THE USG WOULD CONTRACT DIRECTLY WITH LOCKHEED FOR THE AIRCRAFT DESIRED BY CANADA. THIS PROCEDURE OFFERS AN ADDITIONAL MEASURE OF ASSURANCE TO THE CANADIAN GOVERNMENT REGARDING ITS PROCUREMENT.

"--THE US WOULD BE PROCURING THE P-3 AIRCRAFT FOR THE CANADIANS ON THE SAME BASIS AND WITH THE SAME ASSURANCES AS WHEN IT PROCURES P-3S FOR ITS OWN REQUIREMENTS--WITH THE EXCEPTION OF THE DEVELOPMENT OF THE UNIQUE CANADIAN AVIONICS PACKAGE AND ITS INTEGRATION INTO THE AIRCRAFT.

"--THUS, WITH THIS QUALIFICATION, CANADA WOULD HAVE THE

SAME ASSURANCE OF DELIVERY OF ITS AIRCRAFT THAT THE US HAS FOR ITS OWN.

"--THE DOD CANNOT GUARANTEE A FIXED PRICE TO CANADA, ANY MORE THAN IT CAN BE ASSURED OF A FIXED PRICE ON ITS PROCUREMENTS FOR ITS OWN REQUIREMENTS.

"--HOWEVER, IN THE EVENT OF ANY COST OVERRUNS STEMMING FROM BANKRUPTCY REORGANIZATION, OR FOR OTHER REASONS,

CANADA COULD BE ASSURED OF AS ADVANTAGEOUS A RENEGOTIATION AS THE US WOULD ACHIEVE FOR ITSELF.

"--WITH RESPECT TO THE OFFSET ARRANGEMENT, THE US WOULD UNDER FMS SEEK TO FACILITATE THE OFFSET ARRANGEMENT WHICH HAS BEEN WORKED OUT, BUT IT SHOULD BE UNDERSTOOD THAT THE USG COULD NOT GUARANTEE A PARTICULAR LEVEL OF OFFSET OR A PARTICULAR TYPE OF OFFSET, NOR COULD IT ABSORB PENALTIES ASSESSED UNDER THE CONTRACT FOR OFFSET FAILURES.

"--IT SHOULD BE STRESSED THAT THE BURBANK DIVISION OF LOCKHEED, WHERE THE P-3S ARE BUILT, HAS BEEN ONE OF LOCKHEED'S STRONGEST OPERATIONS FOR YEARS. IN FACT, THE CIVILIAN BUSINESS AT BURBANK HAS BEEN THE UNPROFITABLE SIDE, AND IT APPEARS LIKELY THAT IN THE EVENT OF BANKRUPTCY, MILITARY PRODUCTION WOULD BE CONTINUED, PERHAPS
CONFIDENTIAL

CONFIDENTIAL

PAGE 05 STATE 052155

WITHOUT ANY HARMFUL EFFECT WHATEVER.

"BRIDGE FINANCING FOR THE CONTRACT.

"--UNDER FMS ARRANGEMENTS, AS PROVIDED BY US LAW, ALL COSTS OF THE LRPA PROCUREMENT WOULD HAVE TO BE BORNE BY THE GOC, AND THERE COULD BE NO WORK DONE UNTIL "MONEY WAS IN THE BANK." HOWEVER, THE ADDED ELEMENTS OF ASSURANCE TO CANADA PROVIDED BY AN FMS ARRANGEMENT SHOULD BE SUPPORTIVE OF GOC ACTIONS TO OBTAIN THE LOANS NEEDED FOR FRONT-END FINANCING OF THE CONTRACT, SHOULD CANADA CHOOSE THAT METHOD OF FINANCING." END TEXT. KISSINGER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY PROCUREMENT, MILITARY AIRCRAFT, DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 MAR 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: SmithRJ
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE052155
Document Source: CORE
Document Unique ID: 00
Drafter: DAKRUSE:RM
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760081-0612
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760394/aaaadfic.tel
Line Count: 213
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 76 STATE 48462
Review Action: RELEASED, APPROVED
Review Authority: SmithRJ
Review Comment: n/a
Review Content Flags:
Review Date: 12 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 APR 2004 by CunninFX>; APPROVED <17 AUG 2004 by SmithRJ>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: US ASSURANCES TO GOC ON LOCKHEED LRPA SALE
TAGS: MILI, EAIR, US, CA
To: OTTAWA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006